SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

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EXECUTIVE SUMMARY

REPORT TO THE BOARD OF DIRECTORS MEETING

HELD ON 20 APRIL 2011

Subject	2011/12 Capital Programme and 5 Year Capital Plan
Supporting TEG Member	Neil Priestley
Author	Neil Priestley
Status[1]	A

PURPOSE OF THE REPORT

To seek Board approval for the 2011/12 Capital Programme and updated 5 Year Capital Plan.

KEY POINTS

1. Major review of the 5 Year Plan given £31.2m reduction in assumed resources, largely due to a decision to not rely on future I&E surpluses.
2. 5 Year Plan/Capital Programme balanced following actions to reduce ring-fenced budgets and scheme costs.
3. No flexibility for further significant schemes before 2015/16.
4. Small over commitment on 2011/12 Capital Programme but unlikely to be a problem given the size of the Programme and historic levels of slippage.
5. Capital planning/prioritisation and scheme "value engineering" will be crucial in securing maximum value for money from limited resources.

IMPLICATIONS[2]

Achieve Clinical Excellence	Enabler of quality, efficiency, etc.
Be Patient Focused	Enabler of quality, efficiency, etc.
Engaged Staff	Enabler of quality, efficiency, etc.

RECOMMENDATIONS

As per Section 6 of the report.

APPROVAL PROCESS

Meeting	Presented	Approved	Date

[1] Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

[2] Against the three pillars (aims) of the STH Corporate Strategy 2008-2012

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

BOARD OF DIRECTORS – 20 APRIL 2011

2011/12 CAPITAL PROGRAMME AND 5 YEAR CAPITAL PLAN

1. INTRODUCTION

1.1 At its 21 April 2010 meeting the Board approved the newly developed 5 Year Capital Plan along with the 2010/11 Capital Programme.

1.2 Over the last 6 months or so, the Trust has undertaken the 2011/12 Business Planning Process and, alongside the capital planning element of this process, has undertaken a full review of the 5 Year Capital Plan.

1.3 This report briefly describes the work undertaken and conclusions reached; and seeks approval for the resulting 2011/12 Capital Programme and updated 5 Year Capital Plan.

2. 5 YEAR CAPITAL PLAN

2.1 As part of the 2011/12 Business Planning Process a number of unavoidable new commitments were identified as follows:

- A&E Expansion (estimated £2m)
- Increased IT investment (£1m per annum from 2012/13)
- Increased funding for Major Medical Equipment Replacement to offset budget shortfalls (£2m)
- NGH additional car parking (£0.7m)

2.2 Potential other developments were identified in respect of Neurosciences facilities and the PACS renewal/replacement but neither are currently assumed to have significant costs in the current 5 year period.

2.3 Given the current NHS financial climate, it was deemed no longer appropriate to rely on the £6.7m per annum of I&E surpluses previously assumed. The long-term depreciation forecasts were also reassessed which resulted in a reduction in available resources of £4.4m. Overall, therefore, the assumed resources available over the four years from 2011/12 to 2014/15 have been reduced by £31.2m.

2.4 As a result of this and other minor adjustments, the 5 Year Capital Plan showed an over commitment of £18.3m. Actions proposed to balance the Plan were:

- Reductions to the annual ring-fenced budgets over 4 years for Service Developments (£0.5m), Estates Infrastructure (£0.5m), Ward Refurbishments (£0.5m) and Statutory/Regulatory (£0.1m).

- The use of the Service Development ring-fenced budget to fund the Breast Services Phase 2 scheme (2011/12) and the further NGH Car Parking scheme (2013/14).

- Confirmed cost reductions on the RHH Critical Care (£1m) and Catering (£3.2m) schemes and an expected cost reduction on the WiFi scheme (£0.5m).

- Various anticipated scheme underspends (£0.4m), a reduction to the funding available for Strategic Energy schemes (£0.5m) and various resource assumption updates (£1.8m).

- Most speculatively, further one-off ring-fenced budget reductions in 2013/14 (£3m) and an assumed reduction to the cost of the 5th MRI Scanner (£1m) should that proposal ultimately proceed.

2.5 The outcome of this exercise, therefore, is that there is now a balanced 5 Year Capital Plan but with some risks and no uncommitted resources for significant schemes until 2015/16.

2.6 The updated 5 Year Capital Plan has now been built into the proposed Capital Programme as described below.

3. 2011/12 CAPITAL PROGRAMME

3.1 The 2011/12 Capital Programme is derived from the 5 Year Capital Plan described above as are the planned values for subsequent years.

3.2 The 2010/11 position shows a programmed position of an £9.2m under commitment but the final outturn under commitment will be around £15m. This partly reflects the small under commitment on the original 2010/11 Capital Programme, largely due to the full receipt of the FT Financing Facility loan for the Laboratory Rationalisation scheme in 2010/11, but principally reflects very high levels of slippage, some of which was late and unexpected.

3.3 The proposed Capital Programme shows the following position:-

	2010/11 £M	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M
Under/(over) commitment	9.2	(10.4)	(5.1)	1.0	5.7
Cumulative		(1.2)	(6.3)	(5.3)	0.4

3.4 It can be seen, therefore, that there is a very small programmed over commitment for 2011/12 once the uncommitted resources from 2010/11 are carried-forward. Given historic levels of slippage, an outturn overspend is extremely unlikely.

3.5 The Capital Programme shows a more significantly over commitment in 2012/13 and 2013/14 but these are felt to be manageable sums, even though the planned expenditure in those years is much smaller.

3.6 The assumed resources in the 2011/12 Capital Programme reflect:

- Internally generated resourced of £22.4m from forecast depreciation and impairment charges.
- £10m from reinvestment of past I&E surpluses.

- A further £2.5m from Health Authority allocations (Clinical/Surgical skills), forecast VAT recovery and various "donations".

3.7 Resources assumed in future years reflect forecast depreciation and impairments, expected VAT recovery and the final application of historic I&E surpluses. Clearly, any future I&E surpluses will give the opportunity for additional investment should the revenue consequences be affordable.

3.8 Significant schemes within the Capital Programme are as follows:-

	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M
WiFi Project	1.3	1.2		
Laboratory Rationalisation	8.7	4.5		
RHH Critical Care	4.6	2.0		
NGH Ultrasound	1.9			
NGH Car Parking	1.2		0.7	
A&E Expansion	0.2	1.2	0.6	
RHH Endoscopy/Decontamination	2.0			
Chest Clinic/Respiratory Outpatients	0.9	2.5	0.4	
Diabetes/Endocrinology Outpatients			1.0	
Catering Infrastructure	2.2	1.3	3.2	
Replacement Cath Lab	0.9			

3.9 In addition to the larger schemes shown above, the process for prioritising schemes against the ring-fenced capital budgets has been completed. There are many individual schemes but some of the more significant proposals are as follows:-

Minor Medical Equipment (£3.5m)	- Stack Systems - Patient Monitors - Ultrasound Equipment - Orthopaedic Power Tools
Major Medical Equipment (£4.0m)	- MRI Scanner Replacement - Linear Accelerator Replacement - Urology Lithotripter
Information Technology (£1.0m)	- ICE Infrastructure - Single PAS - Vmware
Statutory and Regulatory (£0.4m)	- Fire Safety Works - Moving and Handling
Hotel Services/Security (£0.35m)	- Vehicles - Catering Equipment - Laundry Equipment - CCTV Infrastructure
Estates Infrastructure (£3.5m)	- Clocktower works - Electrical Infrastructure - Heating Systems - Lift Upgrade Programme

Ward Refurbishments (£3.5m)	- Contribution to RHH Critical Care - Infectious Diseases E Floor Cubicles
Service Developments (£3.5m)	- Renal IT System - Ophthalmology IT System - Breast Services Phase 2 - Clinical Immunology Department - Barnsley Road entrance - Wi-Fi Trolleys

4. RISKS

The key risks for the 2011/12 Capital Programme and subsequent years are:-

4.1 Additional critical/unavoidable schemes arising, particularly in 3 or 4 years time – **High Risk**. Mitigating actions would include delivering I&E surpluses, identifying other funding options and reprioritising the Capital Programme.

4.2 Increased scheme costs and other pressures – **Medium/High Risk**. Mitigating actions include tight management of scheme specifications, firm cost control and, if necessary, identifying other funding sources and/or reprioritising the Capital Programme.

4.3 Slippage – **Medium Risk**. Mitigating actions include improved planning and forecasting, prompt actions in developing and finalising schemes and identification of options to advance schemes where slippage occurs.

4.4 Reduced Resource Availability – **Medium Risk**. The resource assumptions in the Capital Programme are prudent and do not rely on future I&E surpluses. The main risk would arise from a failure to deliver I&E balance such that internally generated resources would be reduced.

5. CONCLUSIONS

5.1 The Trust has a balanced Capital Programme over the 5 Year 2010/11 to 2014/15, albeit with a number of risks and challenges as described above.

5.2 The position for 2011/12 shows a small over commitment but this is unlikely to be a problem given historic levels of slippage.

5.3 Satisfactory solutions are required on expected scheme cost reductions and ring-fenced budget reductions.

5.4 There is little scope as things stand for any further major schemes over the next 4 years such that the PACS renewal/replacement and Neurosciences development proposals will need to be carefully planned and considered.

5.5 Capital planning/prioritisation and “value engineering” to secure maximum value for money will be crucial as capital funding is inevitably constrained over the coming years and revenue affordability will also be a major issue.

6. RECOMMENDATIONS

The Board of Directors is asked to:-

6.1 Approve the Capital Programme as per the attached Appendix.

6.2 Note the risks outlined in Section 4 above.

6.3 Note the importance of capital planning/prioritisation and “value engineering” in securing maximum results from limited capital and revenue funding.

Neil Priestley
Director of Finance
April 2011